ARIZONA TOURISM

State of the Industry Report

January 2002

Nichols Gilstrap

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1.0 INTRODUCTION

1.1 Ramifications Of 2001 Events

The year 2001 will be remembered as one of the most devastating periods in the modern history of the United States. Not only did the tragic events of September 11 propel the nation into war, but it also wreaked financial havoc on many facets of the country's economy--particularly most segments of the travel and tourism industry. Worldwide, if at least briefly, travel came to a near standstill. As a result, hotels, airlines and other travel-dependent industries suffered overwhelming consequences. Although gradual recovery is likely to continue through 2002, lessons learned during the fourth quarter of 2001 will not soon be forgotten. Further, they clearly underscored both the industry's importance to the national and regional economies, as well as its inherent volatility.

If there is any benefit to the incidents of 2001, it could only be that the general public's consciousness regarding the importance of the travel and tourism industry was raised in an unprecedented manner in the weeks and months following September 11. One had only to pick up a newspaper or view a newscast to learn of how even a brief period of halted or reduced domestic travel could translate to millions of dollars in lost revenue, tens of thousands of jobs jeopardized and untold--and unrecoverable--losses in tax revenues.

What became a national industry crisis adversely affected Arizona's already faltering economic situation. It also underscored the state's dependence on the industry for economic growth and well-being.

1.2 Tourism in Arizona: Five Key Roles

At no time has the need to educate Arizona's residents as to the importance of the tourism industry to sustained economic well-being been greater. At the same time, it has never been more apparent how critical it is that aggressive efforts be made to nurture and grow the industry. Key factors that underpin the direct benefits Arizonans receive as a result of a healthy tourism industry include the key factors in Figure 1-1.

FIGURE 1-1

Tourism in Arizona

Key Roles Include

1. Imports significant new spending to the state
2. Shifts key portion of tax burden from residents to visitors
3. Simulates an enhanced quality of life
4. A catalyst for many forms of economic development
5. Creates jobs

Imports Significant New Spending To The State

Because an inordinate number of goods are rarely transported outside of the state's borders as a result of this visitor spending, many residents and government leaders often fail to recognize that tourism is an export industry. In fact, few industries can compete with the impact of tourism's role as a service export. The most recent statistics available from the Travel Industry Association of America indicate that because visitors from outside of the United States spend more money here than Americans do abroad, tourism annually creates a $14 billion balance of trade surplus for the U.S. This is important for Arizona because many economists emphasize that the strength of any economy – national, state or local – is directly related to the strength of its export-related industries. In Arizona, tourism annually accounts for $13.8 billion in direct spending. Approximately $11 billion of that total comes from outside of the state (non-resident spending).

Shifts Key Portion Of Tax Burden From Residents To Visitors

Direct spending in Arizona's tourism industry is responsible for infusing approximately $600 million in tax revenues into the state and local economies. That represents an average household savings of approximately $300 annually. In other words, without a healthy tourism economy, every Arizona household would bear the burden of $300 in additional taxes each year to fund the services provided by our state and local governments. Therefore, it is essential that the populace understand the significant implications of a weakened tourism economy.

FIGURE 1-2

Tourism's Arizona Contributions

- **$13.8 billion** direct visitor spending
- **$981 million** in tax collections
- **$30 billion** economic impact
- **451,600** direct and indirect jobs

Source: Elliott D. Pollack & Company

Stimulates An Enhanced Quality Of Life

In addition to a fabulous climate, Arizonans are fortunate to enjoy some of the nation's finest recreational facilities and amenities many of which are supported by tourism dollars. Without question, the quality and diversity of such pleasures as golf courses, shopping centers, restaurants and attractions such as museums and hiking trails, would be greatly reduced were it not for the demand these facilities receive from Arizona visitors. Amenities supported by tourism help to stimulate an enhanced quality of life for Arizonans.

Serves As A Catalyst For Many Forms Of Economic Development

Decisions to relocate or expand a revenue- and jobs-generating business rarely, if ever, are made without a decision-maker having an affinity for the locations being considered. It is a well-known fact that Motorola, one of the state's largest private employers, has an immense presence here largely because founder Paul Galvin fell in love with Arizona while playing one of the Valley's golf courses. Indeed, quality of life, and the related facilities and amenities that residents and visitors alike enjoy, is typically cited as among the top reasons for companies to choose one potential site over another.

Creates Jobs

No other single event than September 11 has illustrated how dependent sectors of the nation's--and state's--employment base is on tourism-related industries. Drastically reduced travel immediately forced such businesses as hotels and airlines to announce unprecedented layoffs. Overnight, tens of thousands of jobs were lost because travel halted. Considering that in 2001 it is estimated that up to 25 percent of Arizonans were directly or indirectly employed by the tourism industry, it is strategically vital that the industry's role in job creation be understood and embraced by all Arizonans. In addition to the raw number of jobs created by tourism, the industry’s employment-related benefits include:

- It is a vital source of entry-level seasonal and 'bridge' employment
- It has high-paying career advancement opportunities
- It employs large numbers of minorities and women
- It benefits both rural and urban economies

With new forms of economic development spurred by tourism comes significant job creation as employers expand or relocate their businesses to Arizona. Elliott D. Pollack & Company estimates that 451,600 jobs can be attributed to the tourism industry in Arizona.

1.3 Arizona Office Of Tourism/Nichols Gilstrap

In recognizing tourism's critical role in Arizona and to begin to chart a path for the state's tourism industry to follow in years to come, the Phoenix-based strategic marketing and development firm, Nichols Gilstrap, Inc. (NGI) was retained in 2001 by the Arizona Office of Tourism to conduct a strategic review of the current "state" of the Arizona tourism industry and to develop a roadmap for ensuring long-term success and industry health. NGI was engaged by the agency due to both its extensive destination management experience, as well as its national travel industry perspective. NGI has conducted tourism industry strategy work in a wide variety of states and communities, including Alaska, Delaware, Illinois, Kansas, Mississippi, Missouri, Montana and Virginia. In anticipation of future opportunities and challenges faced by the Arizona tourism industry, this report is designed to paint an accurate picture of the role tourism plays in the overall Arizona economy and the current critical issues facing the industry. It is hoped that the readers will gain a new perspective and understanding of both the impact that tourism has on economic development as well as what needs to be done by the state of Arizona and its affiliated partners to protect this vital component of the state's economy for economic well-being today and the years ahead.

2.0 PROJECT PROCESS

2.1 Three Phases

NGI, working in partnership with the Arizona Office of Tourism and industry leaders from throughout the state, is charged with creating a plan for long-range, strategic planning and management of the state's tourism industry. That plan encompasses the three phases illustrated by Figure 2-1.

FIGURE 2-1

Three Phase Process

1. **State of the Industry**
2. **Development of Long-Term Strategy**
3. **Action Plan and Measurements**

2.2 State Of The Industry

Cornerstone of the three-phase effort is research and creation of this document, the *State of the Industry*. This document is designed to report on the Arizona tourism industry's current condition, identify critical issues, analyze opportunities, provide strategic focus for future efforts and ultimately lead to an action plan for the industry to follow over the next five years.

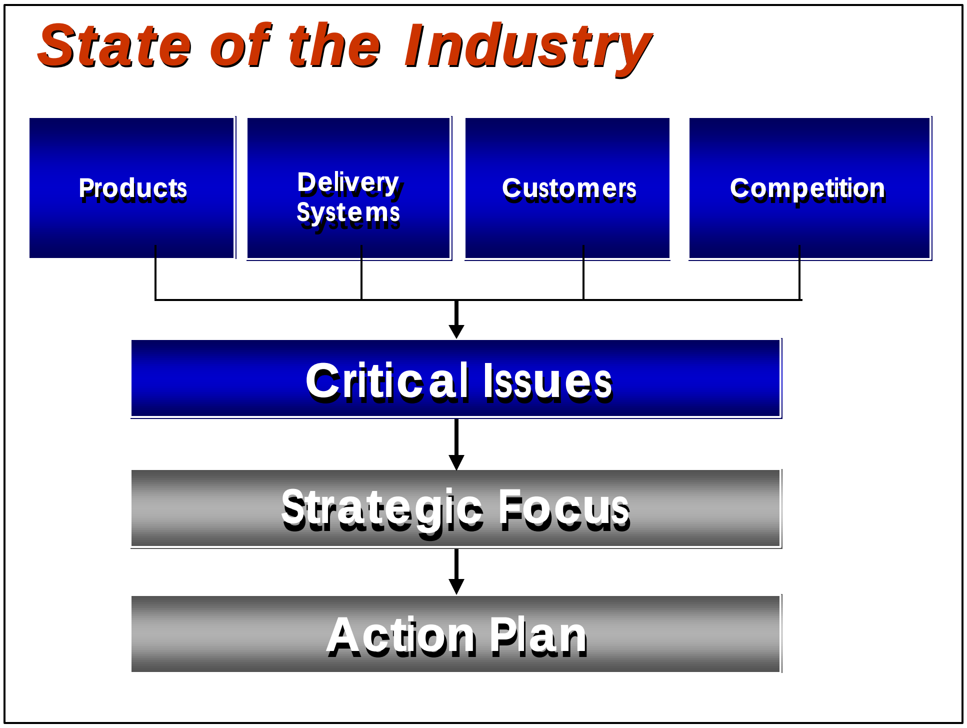
The ultimate goal of this strategic planning process is to provide a five-year strategy for the industry to create or maintain sustainable competitive advantage over the many other destinations vying for a larger share of the tourism pie. By doing so, the strategy will play an integral role in stabilizing and growing the industry while at the same time strengthening its ability to continue to: 1) Remove part of the tax burden to residents, 2) Increase visitor expenditures, 3) Play a vital role in overall economic development and 4) Be a catalyst in the development of improved visitor and resident amenities. In order to create a *sustainable competitive advantage*, any recommended strategy must have more than a temporary impact on the industry; rather it must build upon Arizona visitor strengths that cannot be easily duplicated by other destinations.

To fully comprehend the various issues faced by the diverse interests throughout the state of Arizona, NGI first engaged in a series of SWOT (strengths, weaknesses, opportunities and threats) group input sessions. The first, a statewide session at the Governor's Tourism Conference held in August 2001 in Tucson, was followed by seven regional sessions staged statewide. Following these group sessions, more than 60 individual interviews were conducted with economic development and tourism officials throughout the state. In addition, the firm analyzed all related research currently available and made site visits to attractions in each of the state's seven travel regions.

In all of these activities, four key categories were addressed so that a comprehensive picture of the industry could be painted. These included:

- **Products** - what attractions and amenities does Arizona have to offer potential visitors that provide the state with a competitive advantage?
- **Delivery systems** - how can people get to Arizona and how are services delivered to them once they are here?
- **Customers** - who are Arizona's current customers and, more importantly, who are the customers that could be most critical to the tourism industry's long-term financial success?
- **Competition** - who is Arizona's competition--particularly when it comes to offering significant destination drivers (those attractions that are powerful enough in themselves to serve as a visitor draw)?

FIGURE 2-2



From this research, NGI was able to narrow the findings down to identify five critical issues. These issues serve as the foundation not only for the *State of the Industry* report, but will also lead to the next two steps in the strategic planning process--developing a strategic focus and crafting a meaningful long-range action plan.

"There exists a tremendous opportunity to increase the awareness of tourism's role and challenges..."

Overwhelmingly, the preliminary findings supported statements outlined in the Introduction section above. There exists a tremendous opportunity to increase the awareness of tourism's role and challenges by both residents and leaders. From the legislator to the layperson, it is obvious that there remains an alarming amount of misinformation and a lack of understanding about the industry and its vital role in the economy.

Perhaps nowhere is this more evident than following the state's economic slowdown of 2001 and the incidents of September 11. As the tourism industry experienced a downturn, so too did the rest of the economy. And, in the face of a slower economy and decreased visitor spending, many other competitive destinations responded to their travel industry's challenges by boosting their promotional activities and increasing the dollars dedicated to attracting out-of-state visitor dollars. Government leaders in many competing states clearly recognized that effective tourism promotions can be an important tool in stimulating new spending or economic growth. The challenge remains to educate government leaders, policy makers, and the general public on the importance of the tourism industry to Arizona's overall economic health, and the value and return on investment in boosting Arizona's tourism promotion dollars.

3.0 Critical Issues Facing Arizona Tourism

Critical Issues

The process of analyzing Arizona's tourism industry, employed in this study process, resulted in the identification of admirable strengths, concerning weaknesses, serious threats and tremendous opportunities. The SWOT (strengths, weaknesses, opportunities and threats) analysis, as mentioned previously, resulted in the identification of five major critical issues that currently face Arizona's tourism industry. They are outlined in Figure 3-1 and subsequent pages.

Figure 3-1

Critical Issues

- **Competition is eroding Arizona's historic advantages**
- **Arizona's product development continues to lag behind other destinations**
- **Use of technology must be expanded to take advantage of travel trends**
- **Continued customer segmentation and target marketing will be needed to create significant opportunities for Arizona tourism**
- **Retention of air service is critical to future tourism stability**

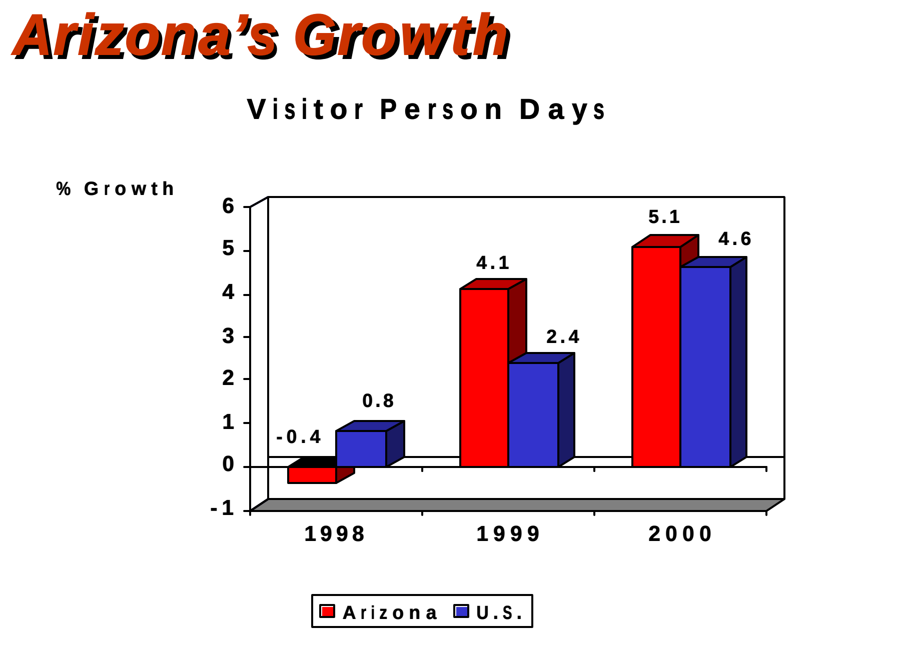
ISSUE #1 SUMMARY STATEMENT

"Many of Arizona's traditional advantages (market share, lift, golf, cultural) are being eroded by a high-powered competitive set."

Tragically, there are those who maintain that visitors will continue to spend their discretionary travel dollars in Arizona "because they always have." Statistics point to an entirely different reality. Many of the state's traditional advantages—market share, high spending visitor segments, high-quality golf, cultural attractions—are being eroded by a high-powered set of competitors. Even more so than in the past, Arizona cannot simply sit back and wait for the visitors to arrive. Rather, the industry must more aggressively market to those visitors who will bring the greatest return to the state's investment.

Consider recent growth trends revealed by nationally recognized market research company D.K. Shifflet and Associates, Inc. Between 1998 and 2000, Arizona experienced growth in visitor person days, or the length of visitor stays multiplied by the number of persons in a travel party, at levels very close to industry averages (9: versus 8). In fact, there was actually a small loss of person days in 1998. While this news isn't devastating, it can lead some into a false sense of security—that is, it looks like the state is doing well, so obviously it sells itself. Not so. Arizona needs to take its blinders off and see how the state actually fared in comparison to the rest of the industry. Clearly, in 1998, the state fared poorly although the industry as a whole grew minimally. The numbers improved in 1999 and 2000, with Arizona outpacing the rest of the country. However, in the competitive tourism arena, the real winners are those destinations that can significantly increase their market share.

FIGURE 3-2



Source: D.K. Shifflet

Although Arizona appeared to hold its own when compared to the rest of the nation, it is important to note that the state's results were not nearly as impressive when one realizes that, as a region, the western U.S. attracted a greater share of the U.S. visitor market. In fact, based on D.K. Shifflet data, market share increases have resulted in an additional $5.3 billion being spent in the West each year. Of these new dollars, Arizona attracted 6 percent, or only $318 million. Conversely, the big winner in the region was California, which drew 73 percent of the additional spending, or $3.9 *billion.*

Competition: California

Many are quick to rationalize California's gains on the fact that the state has an immense population, a wealth of theme parks and other internationally known attractions. However, prior to 1998, California had actually lost market share for numerous consecutive years. What fueled California's turn-around? It's no coincidence that since 1998 the state has devoted significantly greater resources to promoting its tourism industry. In fact, in just 24 months, the California Travel and Tourism Commission's budget was doubled, from $7.3 million in 1998 to $14.6 million in 2000. Clearly, this underscores the general correlation between increased state-level marketing and promotional funding and increased visitation and spending levels. Often, this relationship is neither understood nor embraced by legislators and other individuals charged with establishing funding levels for tourism promotion agencies.

"In just 24 months, the California Travel and Tourism Commission's budget was doubled, from $7.3 million in 1998 to $14.6 million in 2000."

Promotional funding aside, California tourism entities took additional steps to hedge their market share erosion. Recognizing that, in addition to aggressive marketing, it was critical to shore up competitive advantage by ensuring that visitors have new and fresh products to experience, California built on its already huge theme park offerings. The years since 1998 saw the opening of Disney's new California Adventure theme park, as well as the recent debut of other family-oriented attractions such as Bonfante Gardens Theme Park near San Jose and Legoland in Carlsbad.

California's tourism industry recognized it couldn't sit back, even in an industry it dominates. In terms of aggregate numbers, California's top 10 theme parks draw 40 million visitors annually, with Disneyland alone pulling in 14 million. A comparison with Arizona's attraction attendance provides some disturbing numbers. In 2000, the top 10 man-made attractions in Arizona drew just under 5 million visitors, or slightly more than 10 percent of the visitation levels enjoyed by California's top 10. Add to this the fact that many of these local attractions draw heavily from Arizona residents rather than from out-of-state visitors and it's easy to see why Arizona's ability to compete in this area is in serious jeopardy.

FIGURE 3-3

Arizona Attendance

Man-Made Attractions	2000 Attendance
Phoenix Zoo	1,100,000
Rawhide Wild West Town	1,000,000
Arizona-Sonora Desert Museum	519,795
Wildlife World Zoo	420,000
Reid Park Zoo	399,191
Old Tucson Studios	375,000
Arizona Science Center	326,582
Pima Air and Space Museum	300,000
Desert Botanical Gardens	260,000
Heard Museum	250,000
Total	4,950,568

California also has the advantage of enjoying high levels of tourism-related marketing that the state does not even have to pay for. Witness the recent IMAX presentation, *Wild California*. In this production, showing on 63 IMAX screens worldwide, many of California's high adventure experiences are documented, providing the state with essentially a large screen format "infomercial."

Another phenomenon directly related to September 11 is California's redirection of marketing resources away from long-haul markets and toward in-state and regional audiences. Essentially, like many other destinations, California is working diligently (and backing their efforts with an impressive $5 million) to ensure that more of its residents vacation within its borders. The state has also painted marketing bullseyes on its neighbors to the east, Arizona and Nevada.

So why should Arizona's tourism industry be concerned by what is happening next door? Quite simply, the potential ramifications of California's beefed up in-state and regional marketing activities include a tremendous threat to travel and tourism related businesses in Arizona. Not only does California want to keep Californians from spending their money out of state, but it also wants Arizonans to travel there as well—thus potentially causing erosion within Arizona's two top sources of visitors.

California is the source of 23 percent of Arizona's visitors (Arizona instate visitation is 30 percent and Texas is a distant third at 6 percent). Given California's recent successes in regaining market share, as well as its increased budget and refocus on regional short-haul promotion, Arizona could be at risk of experiencing serious visitation declines. Though difficult to predict, it is not unrealistic, nor is it alarmist, to estimate that California could retain, for example, as many as 25 percent of visitors who might otherwise travel to Arizona. Broken down into raw numbers, the situation could become dire. A 25 percent reduction in visitation from California would result in a $700 million decline in spending in the Grand Canyon state, a $35 million decline in tax collections and a potential loss of 20,000 Arizona jobs. This threat should be of utmost concern to all of Arizona.

"A 25 percent reduction in visitation from California could result in a $700 million decline in spending, a $35 million decline in tax collections and a potential loss of 20,000 direct and indirect Arizona tourism related jobs."

But the issue is not restricted to California. Other regional destinations are engaging in hard-hitting marketing and development tactics that could ultimately eat away at the state's visitor base as well. Many of these destinations are successfully expanding and enhancing their offerings in such a way as to be able to compete against Arizona's traditional competitive advantages like resorts, golf, cultural amenities and superb outdoor attractions.

Competition: Nevada

With recent additions of mega resorts like Venetian and Bellagio, Las Vegas has become a major competitor for visitors who are looking for sunshine, outdoor activities and the pampering amenities of a first-class resort hotel—attributes formerly found in abundance in Arizona destinations, but not necessarily in Las Vegas. Acclaimed art exhibits, exclusive shopping, gourmet dining and spectacular entertainment have all helped redirect the destination's image away from 99-cent shrimp cocktails and cheap buffets to that of a world-class resort experience. And the competitive "poaching" doesn't stop there.

Developers have also been busily adding golf courses to the Las Vegas mix, further chipping away at Arizona's competitive advantage in an area that has long been one of the state's major draws. And, like much of what is developed in Las Vegas, the new courses are imaginative and unusual, including one fashioned after British Open courses—complete with a Scottish castle for a clubhouse.

Competition: Utah

Arizona's manmade attraction base isn't the only segment threatened by activities in adjacent states. Other traditional draws for Arizona, natural wonders, outdoor activities and regional culture, are also being promoted heavily—and successfully—by other western states.

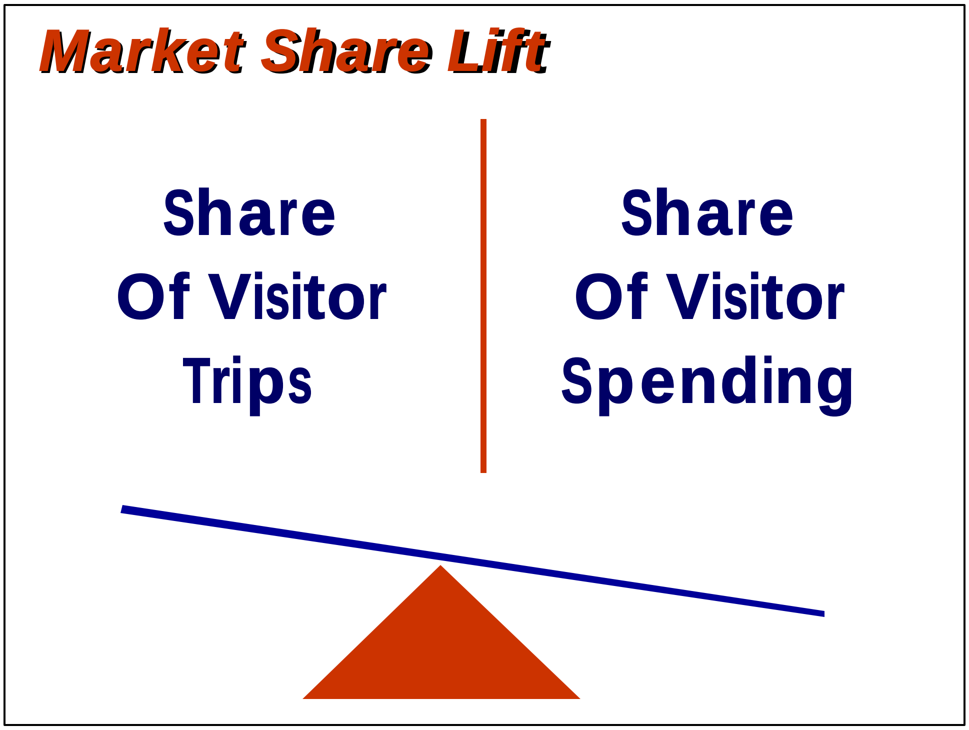
Utah, which already offers many spectacular and one-of-a-kind National Parks, is uniquely poised to pull potential visitors from Arizona—particularly during 2002. The eyes of the world will be on Arizona's northerly neighbor during the 2002 Winter Olympic Games, thanks to a $225 million investment by the state and local governments. It is anticipated that the games will result in an influx of about 70,000 visitors each day, plus provide the state of Utah with a high-profile opportunity to highlight their natural environment and other visitor attractions. The Olympic-related investments are expected to benefit the Utah travel industry far into the future.

Competition: New Mexico

Finally, New Mexico has launched a major effort to own the Hispanic cultural tourism market through its new National Hispanic Cultural Center of New Mexico, a 16-acre, $34 million project in Albuquerque's south valley. Phase I was completed in 2000 and Phase II was started in 2001. When completed, the center will house art galleries, a genealogical research center, a 2,500–seat amphitheater, a 700-seat theater, offices, a restaurant and multi-media production facilities.

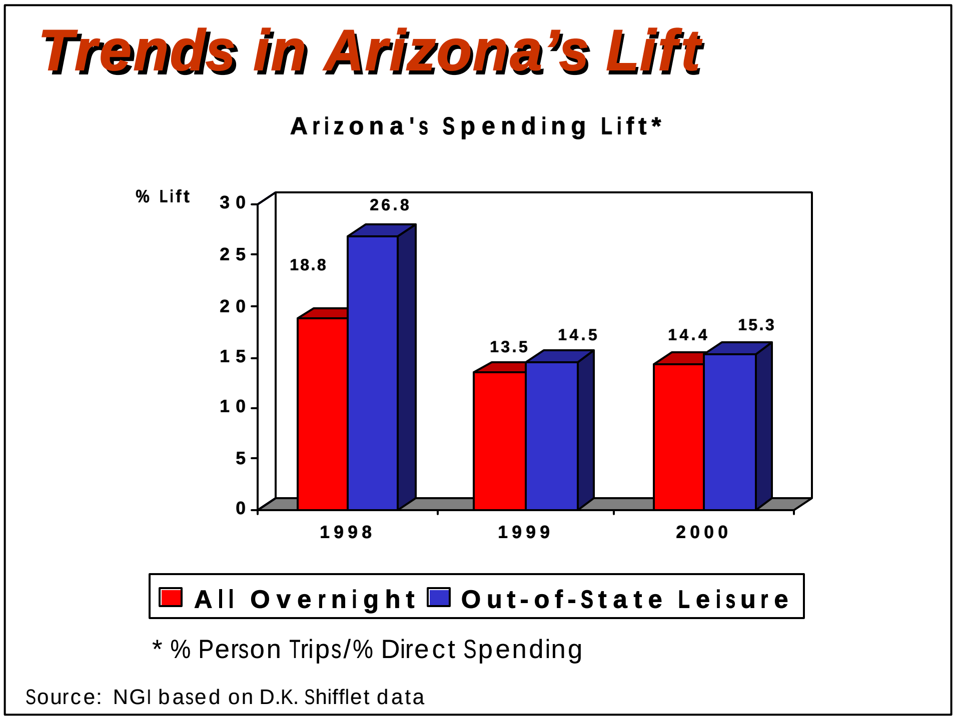
The impact of these competitive efforts is that, collectively, Arizona is seeing a concerning trend in the state's industry "lift," or its ability to attract a higher percentage of domestic visitor spending when contrasted to its share of visitors. In other words, when Arizona is experiencing lift, it means that the state is successfully attracting visitor segments which are higher spending and stay longer than national averages.

FIGURE 3-3



Although Arizona is still one of a handful of states with "positive" lift, an alarming trend has emerged over the past several years. From 1998 to 2000, the lift experienced from all overnight visitation sources decreased from 18.8 percent (i.e., the state's share of visitor spending was 18.8 percent higher than its share of visitors) to 14.4 percent. Of more concern was the fact that the lift from out-of-state leisure visitors—the highest revenue producing segment—was down from 26.8 percent to 15.3 percent, a decrease of more than 10 points.

FIGURE 3-4



Statistics related to revenue growth in the lodging segment are less than encouraging, as well. While the state has grown accustomed to $100 million annual increases ranging from about 4 to 7 percent, that trend is not guaranteed—or likely—to continue in the near future. During 2001, according to Smith Travel Research, the trend reversed, despite the fact that the year began with healthy performance of a more than 7 percent gain during January. Spurred by the nation's economic slowing, though, that gain flattened in April, and by May, the downward slide began—fully four months *before* September 11.

Conclusion

A mere one-tenth of one percent of national travel-related spending equals nearly $600 million and over $1 billion in total economic impact to a state. Such huge potential is what is driving the competitive initiatives. Arizona must respond accordingly. Unless shored up through recommendations and action steps to be detailed later, a continuing erosion of Arizona's traditional competitive advanages--market share, lift, golf and cultural tourism--will cause substantial lost opportunity to the industry and to the state's economy.

Regardless, the numbers speak for themselves. Unless shored up through recommendations and action steps to be detailed later, a continuing erosion of Arizona's traditional competitive advantages—market share, lift, golf and cultural tourism—will provide long-term damage to the industry, the state's economy and residents' quality of life.

Issue #2 – Product Development

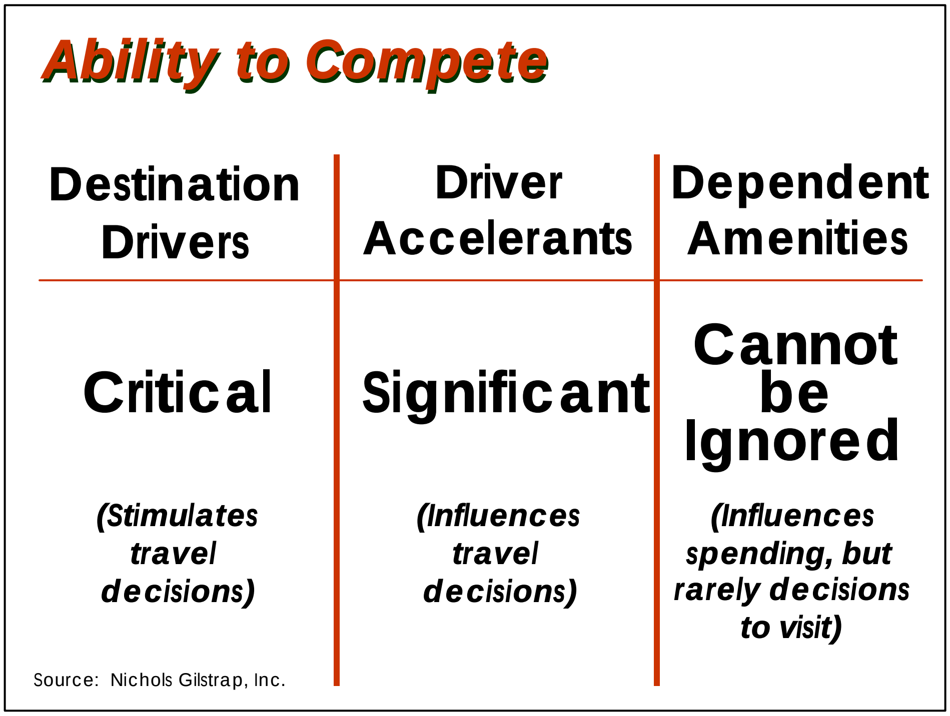
ISSUE #2 SUMMARY STATEMENT

"New and additional product development is essential to combating forces of competition."

For Arizona to continue to compete in the increasingly aggressive marketplace, new and additional product development is essential. This will come as no surprise to the industry, as the topic was discussed at length in a study NGI completed in 2001 for the Arizona Tourism Alliance. Vital to examining this issue is first gaining an understanding of the type of product development most needed in Arizona and the differences among the tourism product infrastructures.

Tourism products can most effectively be categorized in three groups: Destination Drivers, Driver Accelerants and Dependent Amenities. Destination Drivers are defined as those attractions, assets, amenities, itineraries or packages that lead travelers to decide to visit specific locations. Destination Drivers differ from the other product categories that should be considered when development issues are examined. Destination Drivers should be thought of as the principal products that *stimulate* travel decisions. Examples of drivers include powerful attractions, scenery, or experiences that capture the attention of visitors for an extended amount of time. They are the reason people decide to travel to a destination. Driver Accelerants tend to be amenities or experiences that *enhance* the degree of decision stimulation. Dependent Amenities are businesses and attractions (such as most restaurants, small museums and retail outlets) that benefit from traveler spending, yet only after visitors actually travel to a destination. They rarely, if ever, play a major role in stimulating substantial numbers of people to make an actual decision to go on an overnight visit outside of one's traditional trade area.

FIGURE 3-5



During the statewide SWOT interview process, a great deal of discussion was focused on product development—particularly as it related to strengthening Arizona's base of Destination Drivers. Of particular interest were industry perceptions concerning what existing products actually serve as strong Destination Drivers, as show in Figure 3-6.

FIGURE 3-6

Destination Drivers

Industry Perception:

Natural Wonders
Golf
Resorts
Climate
Meetings/Conventions
Spring Training
Shopping
Cultural Attractions
History

Source: Nichols Gilstrap, Inc.

It came as no surprise that leading the list were traditional attractions/tourism stimulants such as natural wonders, golf, resorts, climate and meetings/convention facilities. To a lesser degree, spring training, shopping, cultural attractions and history were noted. However, most of the industry was in agreement to the following:

Spring training – While it is a strong draw for many, it only represents a period of one month.
Shopping – Although many or most visitors cite shopping as one of the activities they engage in while in Arizona, only a fraction of travelers actually cite it as being the factor that stimulated their travel decision.
Cultural attractions – Visiting cultural attractions are again cited as a popular activities, and Arizona's Native American and Hispanic cultures have the potential to be increasingly powerful Destination Drivers, but as currently developed they are not yet considered singularly strong enough to stimulate significant increases in travel to the state.
History – With some exceptions, many visitors will enjoy the state's historic sites, but statistics indicate significant numbers will not specifically travel to Arizona just to visit them as they are currently developed.

When national research conducted by D.K. Shifflet and Associates is analyzed, it is clear that there is consistency among survey findings and the SWOT input. See Figure 3-7. With 100 as the national average, those activities that score higher indicate a stronger than average activity or product utilization by Arizona visitors; those near 100 are on par with national averages and those that score significantly below indicate that Arizona visitors typically engage in those activities on a more infrequent basis. As the figures reveal, shopping, dining and—even to a lesser extent—cultural activities and entertainment options in Arizona do not set the state apart from the competition.

FIGURE 3-7

Product Utilization

Activity	Utilization Index *
Parks	169
Hike/Bike	167
Bird/Wildlife Sightseeing	160
Golf	145
Visit Historic Site	142
Watch sports	125
Activity	**Utilization Index ***
Shopping	107
Dining	103
Cultural	86
Entertainment	85
Activity	**Utilization Index ***
Shows	80
Nightlife	73
Theme/Amusement	35

* Variance of AZ visitors citing activity from U.S. norms, 100 = US average

Source: DK Shifflet

So, what has been done in recent years in terms of enhancing or expanding Arizona's proven Destination Drivers? That story is not a particularly good one. Look first at the category of natural wonders, a segment that has long been considered one of Arizona's strengths.

Natural Wonders

Overall, visitation at most of the state's most popular National Parks and National Monuments pre September 11 was flat or down, as shown in Figure 3-8. That trend is projected to continue through 2002. Since these natural attractions are considered by many to be the "jewels" of the state, this is a disturbing trend. A closer examination points to the fact that many industry leaders believe this stagnant or reduced visitation could be expected. In terms of reinvestment, it is necessary to regard these natural wonders in much the same way as another state might regard its theme parks. The reality is, Arizona has been too complacent and has mostly failed to enhance, change or freshen the visitor experiences at these attractions.

FIGURE 3-8

National Park Visitation

Arizona
September YTD
-2.8%

National Park	2001*	2002*
Overall (U.S.)	+4%	+2%
Canyon de Chelly NM	+2%	+1%
Casa Grande Ruins NM	+2%	-6%
Glen Canyon	+2%	+1%
Grand Canyon	-1%	-1%
Petrified Forest	-7%	-11%
Montezuma Castle	-12%	-9%
Walnut Canyon	-13%	-9%

* Forecasts

Source: NPS 2001

One notable exception to this equation is Arizona State Parks. The good news is that through a more than $25 million commitment from the Arizona Legislature, Kartchner Caverns State Park was opened in 1999 and has been at least partially responsible for an increase in park visitation of 6.2 percent through September 2001. The bad news is that, like other state agencies, the Arizona State Parks department is facing budget cuts that will greatly inhibit that agency's ability to reinvest in its more than two dozen other facilities. Budget cuts could also derail near-term plans to develop Phase II of Kartchner Caverns.

Golf

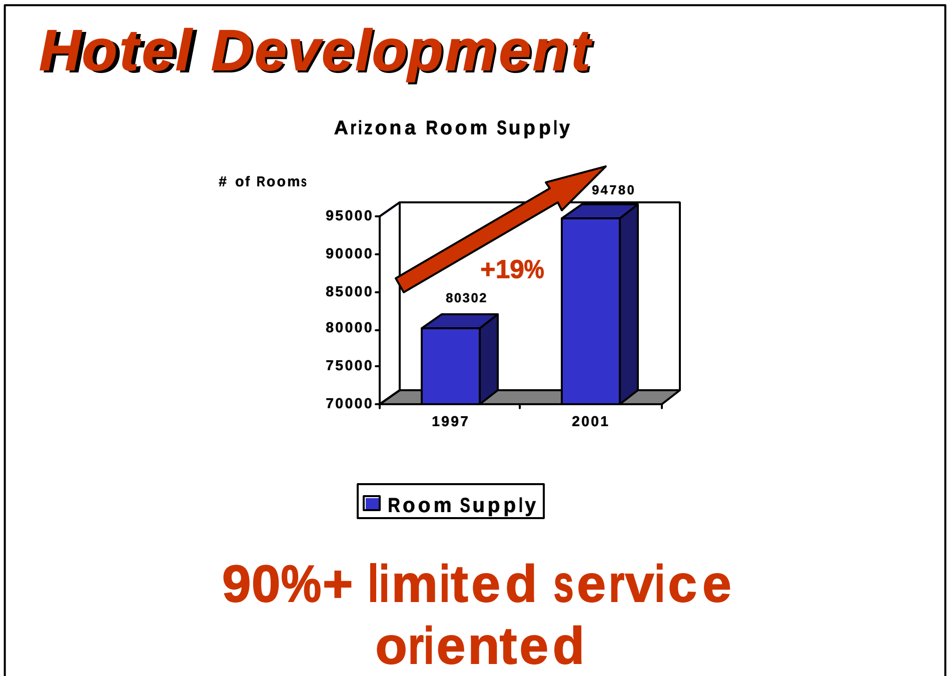
The story is equally murky when it comes to one of the state's other long-time strengths—golf. During the most recent decade, Arizona increased the number of urban and rural golf courses at an unprecedented pace. However, according to one national golf magazine, the state didn't significantly increase its inventory of *high-quality* courses. *Golf Magazine's* 1995 rankings of the top 100 courses in the United States found three of them in Arizona. Six years and untold new course openings later, that same publication found that only one additional course was good enough to make its top 100. Perhaps, it's not even the quality of golf development that's lacking. It very well could be related to the fact that many of Arizona's competitors are better funded and have a greater ability to *communicate* their strengths and the caliber of what they have developed over the past several years.

A different indication comes from yet another national golfing "authority," *Golf Digest* magazine, which in 1991 ranked two of the state's top courses, Forest Highlands and Troon North, among its top 100 at 39th and 41st, respectively. In the ensuing years, both suffered lower rankings and, just last year, Forest Highlands dropped to 86th while Troon North disappeared from the rankings entirely. This may be an indication that Arizona's golf experience has become a victim of its own success as development has encroached upon these previously pristine experiences adversely affecting their surroundings and, hence, their national stature.

Resorts

Also listed among Arizona's top Destination Drivers is the state's renowned resort experience. While it is true that the state's lodging room inventory has seen a 19 percent boost over the past four years, that increase has predominantly (more than 90 percent) been in the limited service category. Granted, it is generally a positive step when more rooms and facilities are added, however, limited service properties are not the kind of products that posses the allure or marketing resources to bring additional demand to the market. In some cases, a glut of limited service hotels can even undermine a destination's image.

FIGURE 3-9



Source: Smith Travel Research

Thankfully, this trend is changing somewhat. Several major new Destination Driver-quality lodging projects have either recently opened, are under construction or on the drawing boards. The greater Phoenix area is seeing the bulk of this new product development, with the 1999 opening of Four Seasons at Troon North and with the construction of new Marriott, Sheraton and Westin properties currently in progress. A new Marriott resort is also planned for Tucson, while two other noteworthy projects in that community have been tabled.

Meeting/Conventions

Finally, a look at the meetings/conventions business provides yet another glimpse of how Arizona—in particular Phoenix—has failed to significantly reinvest in its Destination Driver resources. Although Phoenix is the 6th largest city in the nation, with the 9th busiest airport, the city's convention center, Phoenix Civic Plaza, is ranked 60th in size when compared to other convention centers around the country. The facility has not been enlarged since 1985, providing additional proof that inadequate reinvestment is a recurring theme in Arizona.

With this information in mind, it's no surprise, then, that Arizona lags behind the rest of the country in attracting the lucrative convention business. Consider that Arizona attracts 2.11 percent of U.S. leisure travel, but only 1.73 percent of business travel. Further indicating this lag, group meetings account for only 9.8 percent of Arizona's travel-related revenue, although the national average is 11.2 percent.

Thankfully, this situation could change in the near future, following a vote by citizens to greatly expand Phoenix Civic Plaza. At the same time, some expansion detractors suggested that a viable alternative would have been to simply remain small and vie for smaller meetings. Meanwhile, the competition is going in a more proactive direction. Clearly, staying small would have translated to moving backwards, as Figure 3-10 indicates and would have ultimately resulted in a reduction of revenue and tax benefits rather than maintaining a status quo effect. At the same time, many rural areas of the state could benefit from the addition of higher quality meeting space. While rural Arizona will never be able to effectively compete for large conventions, the addition of improved meeting space in some (certainly not all) communities might be a good investment. In many instances, the feasibility of adding space can be enhanced through community partnerships with hotel developers or lodging providers.

FIGURE 3-10

Phoenix Civic Plaza

- **Competition moving forward – staying the same would have meant backwards movement**

Direct Annual Spending by Conventioneers Currently:	**$300 Million**
With Expansion:	**$556 Million**
Without Expansion:	**$150 Million**
Annual Taxes Collected from Conventioneers Spending Currently*:	**$32 Million**
With Expansion:	**$59.5 Million**
Without Expansion:	**$16.1 Million**

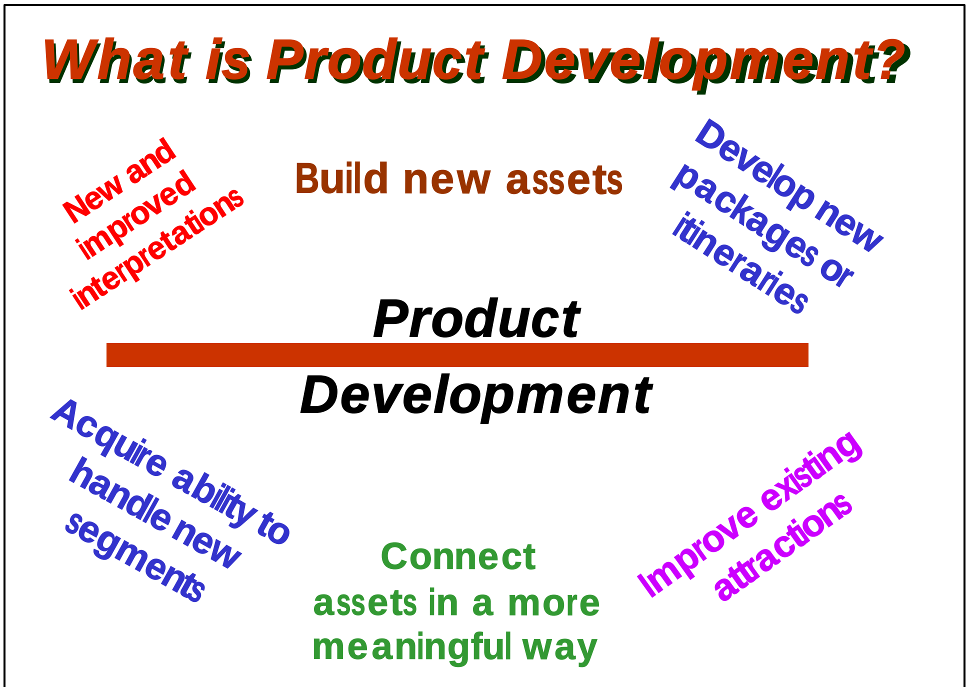
*** Includes city, county and state tax collections.**
Source: PricewaterhouseCoopers

Ultimately, the challenge for the Arizona travel and tourism industry, as it evaluates the issue of Destination Driver expansion and enhancement is to determine how the industry can stimulate new development. Even in economic boom times it is not always possible to address product development issues by infusing huge amounts of cash into building new attractions and enhancing existing ones. So, faced with current economic uncertainties, it is important for Arizona to be creative in its approach to the creation of new and marketable Destination Drivers.

Bricks & Mortar vs. Mental Mortar

Product development in tourism can be classified into one of two categories—either "bricks and mortar" or what we call "mental mortar." Of course the first category implies actual construction or renovation expansion of tourism related facilities. The second category—mental mortar—is typically much easier to accomplish and involves bonding or associating current assets and amenities in such a way that groups of Dependent Amenities and/or Driver Accelerants become Destination Drivers. Examples of this approach include niche experiences, packages, themed itineraries and "hub and spoke" experiential marketing tactics. Already, the Arizona Office of Tourism has taken steps to cluster and market attractions and experiences that appeal to specific visitor interests, from outdoor adventure to shopping.

FIGURE 3-11



Source: Nichols Gilstrap, Inc.

But to effectively plan for and implement product development initiatives that will have a significant and lasting impact on the state's competitive success, it is necessary to discard those paradigms that many in the industry cling to. Historically, and too frequently, the approach has been that once a product development concept is proposed, then the destination reacts to that which is being proposed. The new—more proactive—thinking does just the opposite. First, the destination determines what product development concepts would best serve it by differentiating it from the competition and providing a sustainable advantage over the competition. What development will leverage existing assets and what type of development would support other needs within the destination? Once the decisions are reached, then it is incumbent upon leaders within the destination to actively recruit the desired development.

FIGURE 3-12

Clearly, either approach requires funding to bring it to reality. Destinations that can successfully find a way to pay for strategic development are the ones that will ultimately see their recruiting efforts come to fruition.

Many states have recognized that the successful recruitment of new products is key to maintaining their own sustainable, competitive advantage. These pioneers have devised programs to enhance their supply of Destination Drivers, rather than simply relying upon private industry to do so and then assisting them on a state level with promoting the privately developed products. In many ways, it makes more sense to devote resources to actually facilitating new development rather than just using the same resources to promote the old ones. Plus, many of these incentive programs do not require cash outlay by the states; rather they provide development incentives through tax credits, which are ultimately recouped over time.

The Oklahoma Tourism Development Act and the Arkansas Tourism Development Credit programs are both prime examples of how this idea can help facilitate a broad range of small development projects by providing potential access to incentive dollars. In both states, projects with a minimum development cost of $500,000, receive a 10 percent tax credit for up to $1 million. Those projects costing more than $1 million receive a 25 percent credit.

FIGURE 3-13

Tax Recapture Programs

- **Oklahoma Tourism Development Act and Arkansas Tourism Development Credit**
  - **$500,000 minimum cost**
    - **$500,000 - $1 million – 10% credit**
    - **> $1 million – 25% credit**
- **Mississippi Tourism Incentive Program**
    - **$3-5 million minimum threshold – based on geographic area – Tier 1 and Tier 2 regions**
    - **35% of development cost**

Other states have opted instead for incentive structures oriented more towards grants and loans rather than sales tax rebate structures. The state of Illinois promotes development through a $4 million grant program that offers a 50/50 match to public and/or private attraction developers. Illustrating the increased attention product development is experiencing in that state, the grant program has grown from a level of $2 million only 24 months ago. As the overall dollar allocation has grown in this program, so has the maximum individual grant, which can now reach as high as $1 million.

Iowa also recently joined the ranks of states that recognize the power and importance of tourism product development incentives. The state's Department of Economic Development began two programs in 2000 that earmarked gaming revenues for tourism development funding. “Vision Iowa” is expected to provide up to $300 million over the next 20 years, and will assist public organizations with projects costing $20 million or more. For smaller-scale projects, the state's Community Attraction & Tourism Development program has a $12.5 million annual budget through 2004.

FIGURE 3-14

Grant Programs

- **Illinois Bureau of Tourism**
  - **$4 million Tourism Attraction Grant Program**
  - **50/50 match**
  - **Increased to $4 million in 2001**
- **Iowa Department of Economic Development**
  - **Implemented in 2000 – gambling revenues**
  - **Vision Iowa - $15 million annually – $20 million minimum development costs**
  - **Community Attraction & Tourism Development $12.5 million annually – smaller projects**

With other states enjoying successes in attracting high quality new product development, it is important to take a look at what, if anything, is similarly being done in Arizona. This report does not attempt to provide a comprehensive inventory of all funding sources that could potentially be oriented to tourism-related development, but instead looks at several initiatives that could meaningfully stimulate significant product development.

At present, Arizona is largely at a standstill, pursuing incentives only on a case-by-case basis. Past years have witnessed broader incentive programs, but these have come and gone. For example, one effort was envisioned to promote development of a major theme park in the town of Gilbert and carried with it a $100 million threshold. The related legislation would have provided on- and off-site infrastructure bonding capabilities related to theme parks. This program had limited applicability and had little, if any, potential for smaller communities. This incentive is no longer available.

Legislation allowing for the development of a multi-purpose stadium district was devised to provide funding sources for the then-proposed Arizona Cardinals stadium in the East Valley. It provided for recapture of sales taxes generated within the district and was considered for use by a variety of communities in the urban centers. It is the incentive program that backers of Tucson's Sonoran Sea Aquarium are attempting to use. This program is also no longer available.

As these past programs have expired, the industry is now approaching the Arizona legislature with various requests on a case-by-case basis. Several examples of this emerged within the past 18 months, including a bill on Cultural Heritage Development, which had hoped to secure $500,000 from the General Fund for workshops, training, museum design and planning grants throughout Arizona. In 2000, the Titan Ballistic Missile Museum, located just south of Tucson, was also requesting $100,000 for each of the next two years to help fund the construction of an education and visitors center at the museum. And, finally the Arizona State Railroad Museum approached the Legislature, also with a request for $100,000 in each of the next two years, to assist in funding a new 106,000-square-foot Arizona State Railroad Museum in Williams. Although each of these three projects has gained legislative support, each was ultimately vetoed by the Governor in light of the state's budget shortfall.

Conclusion

In summary, as the industry strives to gain sustainable competitive advantage, it must devise ways and means by which meaningful (i.e., Destination Drivers) product development can occur. For the Arizona tourism industry to thrive, it is not simply an idea to think about and discuss, it is an essential reality for competitive survival.

ISSUE #3 SUMMARY STATEMENT

"The convergence of key trends and emerging technologies are presenting new opportunities for Arizona."

The opportunity to develop new and enhanced products goes hand-in-hand with technology and emerging travel trends. Many factors relating to trends and technologies are in fact presenting new and exciting opportunities for Arizona and, if properly channeled, will potentially boost business in many of the state's sectors.

More than ever before, the relationship between current travel trends and emerging technologies cannot be ignored. This "convergence" has positive applications for the state, but as will be discussed later, Arizona must take several steps in order to capitalize on these opportunities.

Trend #1 - As travelers' choices domestically and internationally continue to expand, so too have their options for gaining accurate and timely information. Thanks largely to the Internet, potential visitors no longer have to wait days—even weeks—to receive the information they desire. For most, it is at their fingertips.

Trend #2 – Increasingly, the trend is toward more frequent, but shorter, trips for most consumers. This is good news for non-urban destinations as this trend also makes it more likely that at least some of these shorter trips will be made within a smaller radius of home. Once again, the Internet enables smaller communities and attractions to reach these potential visitors at a nominal cost.

Trend #3 – Along with more frequent, shorter trips has emerged the trend toward planning those trips with less lead-time. The Internet comes into play here, as well, with online reservations options and usage both increasing.

Trend #4 – All-inclusive packages are increasing in popularity among travelers. In response to this, online reservation portals are featuring an increasing number of inclusive packages. Strategic packaging as mentioned earlier is an easy-to-accomplish form of "mental mortar" product development.

Trend #5 – The number of baby boomers traveling is increasing as baby boomers age. Correlating to this is the fact that more computer users over the age of 50 are regularly surfing the web.

These are just a few examples of trends and how technology is helping to meet or facilitate the trends. The challenge for any player in the travel and tourism industry is how they recognize and take advantage of the opportunities created by this "convergence."

According to statistics released in 2001 by the Travel Industry Association of America, Internet usage has grown to the point where more than two-thirds of online travelers are using that resource for planning their trips. Even more intriguing, fully one-third now use the Internet for actually booking their trips. And, these numbers are on the rise. In just two years, from 1999 to 2001, Internet use for planning purposes increased by 34 percent and an amazing 106 percent for booking purposes. This is an important trend for destinations to consider when creating or enhancing their Internet presence. It is also interesting to note which sites are most frequently used in this process. For research and planning purposes, destination Internet sites (i.e., state tourism offices and/or Convention and Visitor Bureaus) rank among the top sites. Although travel is more frequently booked directly through company sites or online travel agency sites, destination sites are increasingly becoming the site of choice for booking.

FIGURE 3-15

Use of the Internet

Travel Reservations/Booking

Type of Web Site	Online Travelers Travel Planning	Travel Booking
Search Engine Sites	69%	34%
Company Sites	67%	75%
Online Travel Agency Sites	63%	57%
Destination Sites	63%	26%
Special Interest Sites	23%	9%
Newspaper of Magazine Sites	12%	7%
Travel Guide Sites	17%	7%
Community Sites	7%	5%

Source: TIA 2001

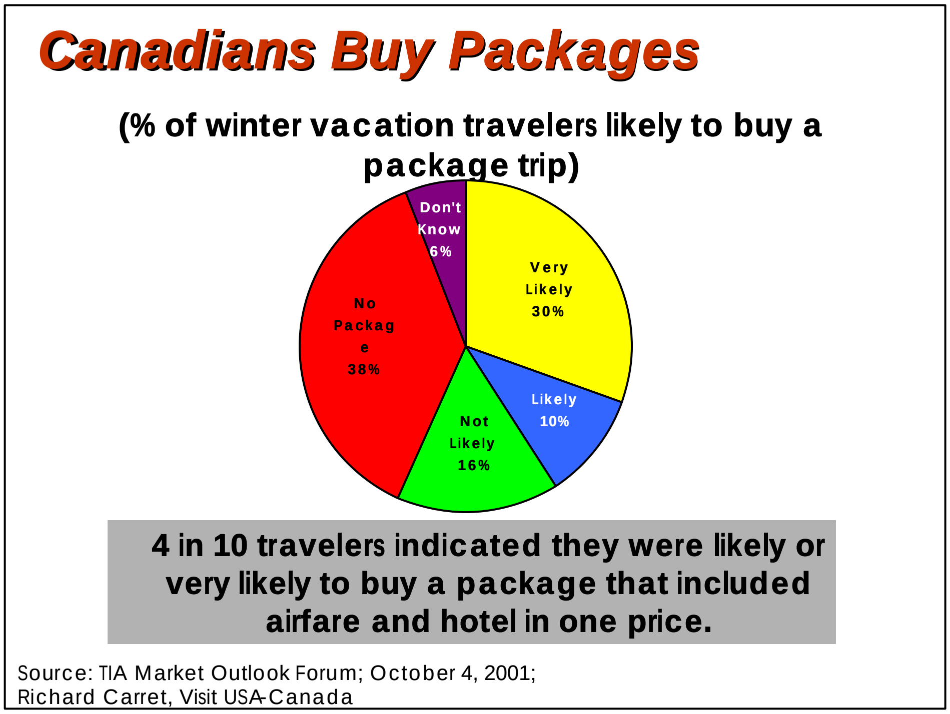
A good example of a state recognizing this potential is California and its www.gocalif.ca.gov site. It not only provides the visitor with countless pages of information, but also offers several options for booking reservations online through the state's lodging association as well as through a private company. Recognizing that there is a segment of the traveling public that prefers working with a travel agent, the site also offers information relating to the benefits of booking through those channels. In addition, California has also responded to September 11 by adding a "California Finds" section that offers travelers discounts of at least 20 percent. California now has over 600 discounted packages available on its site.

FIGURE 3-16

Source: http://www.gocalif.ca.gov/

The importance of packaging cannot be overlooked by any destination, particularly those eyeing international travelers. According to Richard Carret, of Visit USA-Canada, four in ten Canadian travelers indicated that they were likely or very likely to buy a package that included airfare and hotel accommodations for one price. In his comments at the TIA Market Outlook Forum in October 2001, he also made it clear that U.S. destinations in general do a poor job in packaging. With a significant number of Arizona in-bound visitors originating from Canada and other countries, this should be regarded as an exciting opportunity for the state.

FIGURE 3-17



Arizona's tourism industry quickly responded to the third quarter 2001 downturn in business and, through the Arizona Office of Tourism, proactively launched www.arizonavacationvalues.com. Providing a broad range of more than 40 discounted and value-oriented packages, the site has already achieved a positive track record. One northern Arizona packager reported that following the September launch of the site, Thanksgiving weekend demand for their product more than doubled over the previous year.

ARIZONA VacationValues.com

The state is off to a good start and there are tremendous opportunities for expansion. Other examples of how destination marketing organizations (DMOs) have utilized the Internet and packaging to boost business can be found on the Illinois and Idaho web sites. Illinois currently offers more than 400 packages, while considerably smaller Idaho has experienced success with their Idaho Cool Deals web pages that promote packages in nine different categories (family fun, romantic getaways, river packages, etc.) in each of the state's seven regions.

FIGURE 3-18

Source: http://www.visitid.org/Cool/index.html

Unquestionably, these packaging efforts and web sites could not succeed if there was not an audience out there willing and able to visit the sites and plan travel to the destinations. Enter the aging baby boomers. As the world traveled into the new millennium, *American Demographics Magazine* reported on the impact of this market segment in respect to the travel and entertainment industries. Their findings? Simply put, the magazine found that the aging baby boomers are "The best thing that ever happened to the travel and entertainment industry."

Mature Market Expansion: "The best thing that ever happened to the travel and entertainment industry."

Once again, this is good news for Arizona. According to D.K. Shifflet, 29 percent of Arizona's visitor base is already in the 55+ age group, a figure that is about 31 percent higher than the national average of 22 percent.

More importantly, the U.S. Census Bureau predicts that by 2010, the mature market will grow at an unprecedented rate, with the 55-59 and 60-64 age ranges showing remarkable 41 percent and 48 percent growth rates, respectively. Considering these phenomenal growth statistics, it is easy to understand that these groups represent strong marketing opportunities for those destinations that recognize their importance and provide the product they demand.

It is also important to understand that an immense difference exists between today's maturing "boomer" and the mature market of the past. Destinations cannot expect to succeed at attracting this lucrative segment if they still envision the mature market as one that enjoys passive, sedentary bus-dominated tour experiences.

Rather, those destinations that are going to effectively attract this important group are the ones that craft and interpret products in ways that directly speak to this segment. Today's boomers are better educated, more active, more demanding, more individualistic and more sophisticated than their predecessors.

An executive of the Del Webb Corporation, perhaps America's preeminent active adult community pioneer who studies and markets to consumers over the age of 55, concurs strongly with these findings. "Based on this research and other studies we have conducted, the Boomers should be renamed the Zoomers in retirement. They are zooming into retirement with fast and far reaching agendas," said LeRoy Hannemen.

"Based on this research and other studies we have conducted, the Boomers should be renamed the Zoomers in retirement. They are zooming into retirement with fast and far-reaching agendas."
(*Del Webb Corporation*)

Del Webb's research revealed a wealth of key information that can be interpreted by destinations in developing programs and packages to attract the mature market. According to its 1999 study, active boomers and seniors rank travel as a leading goal in retirement and they predict their travel adventures will be their number one expenditure. Other popular goals include healthy living and volunteering (80 percent say they will be healthier in retirement than their parents) and they will look to golf, swim and jog for exercise (6 percent even said they would be roller blading and sky diving).

Conclusion

The challenge for Arizona is to analyze the state's attributes, along with the preferences of this market segment, and craft experiences and products to attract its members. Remember, the state already draws a higher than average share of this important market. The goal should be to maintain this lead and reap the rewards. Maintaining a lead with this segment will result in large increases in visitor spending due to the rapidly expanding nature of the boomer market. With the convergence of demographic trends and new technologies that enable destinations and attractions of all sizes to communicate with key market segments, new opportunities exist for creating products and delivery systems for attracting the emerging mature "boomer" market in even greater proportion.

Issue #4 – Target Marketing

ISSUE #4 SUMMARY STATEMENT

"Arizona must continue to refine target marketing efforts in order to compete and maximize investments in destination marketing."

During the 1990s, the Arizona Office of Tourism made positive strides in its efforts to refine the state's target markets. Recognizing that limited marketing resources prohibited reaching out to all potential visitors, the agency identified its primary areas of opportunity, both domestically and internationally, and focused communications efforts on those individual markets. Looking to the future, the state and its industry partners must continue to refine target marketing efforts in order to compete and maximize investments in destination marketing.

The world is changing rapidly and mass information delivery systems are evolving at a breakneck pace. According to Seth Godin, author of one of 1999's top-selling marketing books, *Permission Marketing*, the average American is being bombarded by 1 million marketing messages a year, or nearly 3,000 every day. In defense, most of us tend to tune these messages out.

Recognizing the declining effectiveness of mass marketing, one of the world's largest advertisers, General Motors, made a ground-breaking move in 2000 by consolidating all of the responsibilities for their media planning (with the exception of Saturn and Saab brands), resulting in a $2.9 billion media budget or the "largest assignment in the history of Madison Avenue."

What was the impetus behind this unusual move? The corporation realized that as marketers put more money into mass advertising programs, the more clogged the information channels become. GM's rationale was that it is becoming increasingly critical to break through the clutter and more narrowly target the potential purchaser of the products being advertised. GM was investing in the ability to acquire the skills needed to speak directly to target customers on the customers' terms.

FIGURE 3-19

General Motors

Case Study

"Media Planning is taking on additional strategic importance as marketers seek to increase the long odds that a potential customer – busy with life and bored by most ads – will pay attention to a sales pitch, particularly when many products are aimed at narrow demographic groups rather than mass audiences."

Source: *New York Times*; July 26, 2000

This holds true for the travel industry, as well. Look at many of the more popular and common vehicles typically utilized by travel industry advertisers. From airline in-flight magazines to consumer travel programs and Internet sites, the media outlets are filled with messages from destinations, transportation companies, hotels and attractions—frequently vying for the attention of the same individual consumer. With all of this noise in the pipeline, consumers are getting proficient at training themselves to shut it out. The situation is even worse in non-tourism related media, where response to travel-oriented advertising is even more diminished.

Today's marketer frequently needs to move away from traditional means of advertising to a more strategic approach. The savvy destination marketer no longer uses the tactic of "This is our product, to whom do we sell it and how?" Rather, the more strategic approach to both product development and advertising is "This is our target customer, what product development or marketing vehicles do we need to use to attract him or her?"

FIGURE 3-20

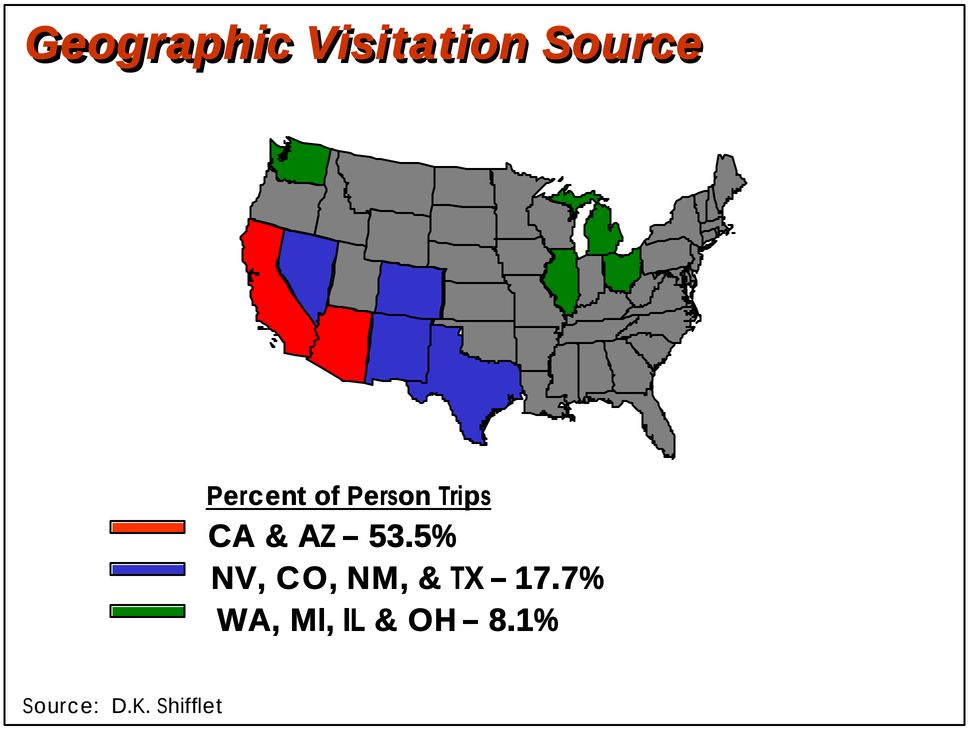
Using a more customer-oriented approach, both the communications channels and the development efforts must be focused on reaching desired visitors and providing them with the experience they are seeking. For Arizona, the recommended approach for strategic target marketing is outlined in Figure 3-21. The first issue to consider is season. What time of year should the state place ads or conduct programs and promotions? This point recognizes that not all customer segments are equal and that many prefer to travel during specific times of the year. A second consideration is target markets. What countries, MSAs and/or ZIP codes should be targeted with Arizona ads and/or programs and promotions? Third is what particular customer segments (age, gender, income, lifestyles, activities and interests, etc.) should be targeted, and after identifying the segments, what communication vehicles will enable Arizona to more narrowly focus on specific desired market segments? Finally, the driver, message, creative execution and placement that must occur. What messages or offers will motivate the customer the state is trying to attract will be important issues to determine? It is important to note that this type of targeting applies to more than just the Arizona Office of Tourism. Convention and Visitor Bureaus, along with other entities with cooperative marketing leadership mandates, need to assume responsibility and work in collaboration with the state in regards to encouraging strategic target marketing.

FIGURE 3-21

An added consideration for Arizona is seasonal differences between the north and the south. There are essentially two distinct markets that have nearly opposite seasonal issues. The high season for the northern part of the state tends to be the summer months, while the southern portion is in the winter and spring.

Pinpointing those markets that present the greatest opportunities requires analyzing both where the state's visitors traditionally come from as well as whether or not these markets have already been tapped to their fullest potential. Figure 3-22 illustrates the top 10 states of origin for Arizona's visitors. The six states marked in red and blue account for more than 70 percent of all visitors. A key question that then needs to be asked is: "Have we exhausted all opportunities to market to these dominant states?

FIGURE 3-22



By comparing the percentage of advertising-generated leads emanating from each state with the percentage of person trips originating there, a resulting ratio indicates where the state's messages has been most effectively targeted. As an example, California, which supplies more than 23 percent of Arizona's visitors, only generated 8.3 percent of the state's leads, as outlined in Figure 3-23. Therefore, it appears there potentially remains a large untapped market in our western neighbor. Conversely, Illinois, which generated fewer leads than California, was the source of only 2.7 percent of Arizona's visitors. A conclusion is that many top states are still viable for garnering an increased share of visitors since Arizona's marketing efforts have not yet met diminishing returns in those markets.

FIGURE 3-23

Areas of Opportunity?

Rank	State	% of Person Trips*	% of Leads**	Lead/Visitor Ratio
1	AZ	30.42	3.2	10.4
2	CA	23.15	8.3	35.9
3	TX	6.24	4.5	72.4
4	NV	4.09	.6	15.2
5	NM	4.08	.5	13.5
6	CO	3.25	1.6	48.6
7	IL	2.70	6.2	229.1
8	WA	2.02	3.2	158.9
9	OH	1.76	3.0	168.9
10	MI	1.60	3.3	203.5

Source: * D.K. Shifflet; ** RUF Solutions

A closer look at the state's regions tells another story. The traditional seven regions are so diverse in their appeal that their target markets vary both within and outside the state. For many of the rural communities, it is more vital that they reach instate markets—principally Phoenix and, to a lesser extent, Tucson.

A recent case study from one Arizona's rural tourism community supports this contention. When Arizona lodging statistics were analyzed, the results disclosed that the highest percentages by far were from within Arizona. California was a distant second.

Further, a sub-sample of this same community's hotel base revealed that 30 ZIP codes, out of more than 30,000 U.S. ZIPs produced nearly 50 percent of that community's overnight stays. Even more fascinating was the fact that 29 of these ZIPs originated from Maricopa County and the other was from within that community's own county. In discussing this with tourism leaders around the state, NGI learned that this case study is not unique. While there are exceptions, particularly in Western and Northern Arizona, this is largely believed to be the rule.

FIGURE 3-24

Arizona Example

Case Study - Lodging Reservations

	% of Total
Top 10 Zip Codes*	21.7%
Top 20 Zip Codes*	35.5%
Top 30 Zip Codes*	47.7%

Conclusion

What target marketing issues mean for Arizona is that 1) the state and its community partners must develop products and coordinate communications that reach and speak directly to individuals within target segments (options should include traditional and non-traditional destination marketing approaches), 2) A premium should be placed on capturing information that allows for future contacts that speak directly to the individuals (i.e., asking the potential visitor such questions as “What areas are you most interested in?” “Can we contact you in the future with information on new packages?”, 3) Approaches and responses to target segments must be fully integrated throughout Arizona’s travel and tourism efforts (e.g., advertising and communications, fulfillment, product development, staff preparedness).

Because of marketing clutter and escalating competition, state and local marketing partners will need to work together to refine target marketing efforts to achieve success. The progress that has been made in this direction in recent years should continue to serve as a stimulus for successful strategic efforts in the future.

ISSUE #5 SUMMARY STATEMENT

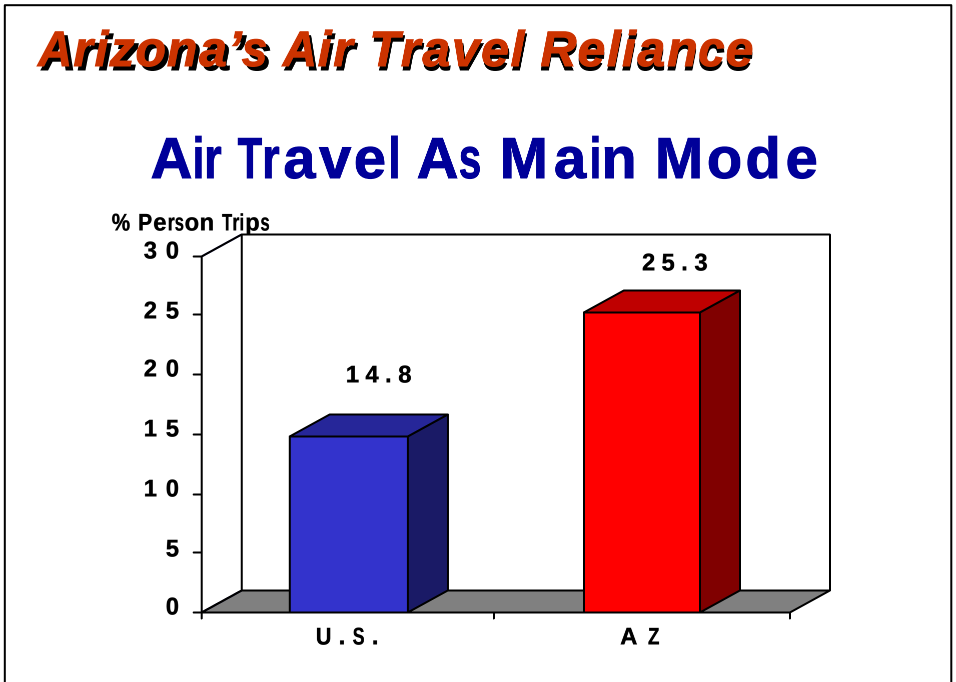
"New Arizona destination strategies must include a major focus on maintaining air service-related competitive advantages."

One of the most unsettling economic sights of 2001 occurred immediately after the September 11 attacks and in the days that followed. There were absolutely no commercial takeoffs or landings at any of the state's airports, as well as at any airports throughout the U.S. With visitors not able to travel to or from their destinations, the situation wreaked havoc on all aspects of the travel industry, from hotels to car rentals to restaurants and bus lines. The truth is, air service has always been important to the tourism industry, but typically destinations have not taken an active role in supporting the air travel industry. Since September 11, it has become obvious that this is not a strategy that can continue. New Arizona destination strategies must include a major focus on maintaining air service-related competitive advantages.

During the past decade, Arizona's air-service priorities have been focused first on growth and second on retention. Incidents within the industry following September 11—layoffs, service cutbacks, bankruptcy threats, etc.—underscored the inherent instability in that industry. It has become obvious that simply maintaining the status quo—growth becoming secondary—could be a challenge.

This is a critical issue for the industry as a whole, but much more so for Arizona. Nationally, less than 15 percent of inbound travelers access their destinations by air service. In Arizona, that number is more than 25 percent, illustrating a huge dependence on airlines for transporting the state's visitors here.

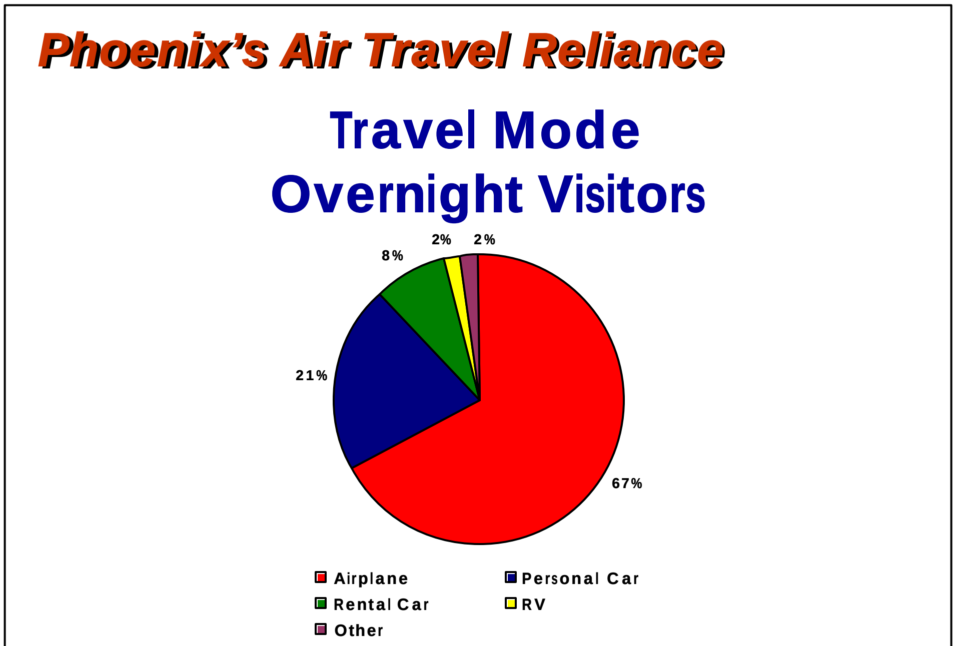
FIGURE 3-24



Source: D.K. Shifflet

Even more compelling is the fact that airline passengers arriving in Arizona tend to be among the state's highest spending visitors because they tend to stay in hotels and resorts. According to a study completed by the Behavior Research Center in the spring of 2000, nearly 70 percent of all overnight visitors staying in the Phoenix metro area's hotels, motels and resorts arrived here via air.

FIGURE 3-25

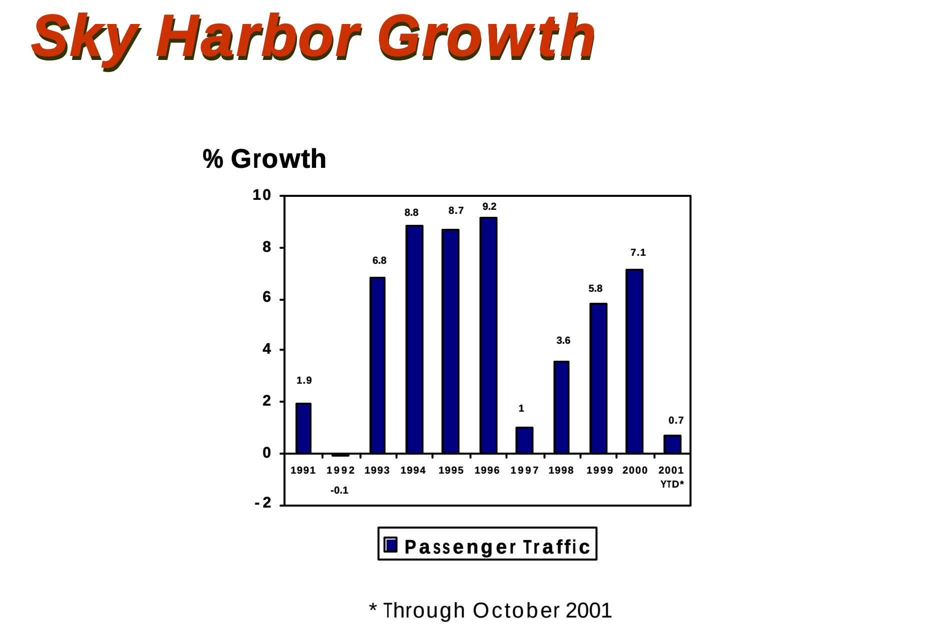


Source: Behavior Research Center, Metropolitan Arizona Visitor Study
Spring 2000

Room and tax revenues notwithstanding, there is a huge amount at stake when discussing Arizona's air service—both in the state's largest cities, as well as in those rural communities that have commercial air service. Phoenix Sky Harbor has experienced explosive growth in the past 20 years, increasing passenger traffic from 6.5 million in 1980 to 33.5 million in 1999. Today it is the nation's 9th business airport for passenger traffic and the world's 5th busiest for takeoffs and landings. It is the only airport in the U.S. that serves as the largest station for two major airlines—Southwest and America West, which represent approximately 75 percent of the airport's passenger traffic. And, the FAA projects that by 2015, Sky Harbor will have soared to the 5th busiest in the nation.

As rosy as those statistics may be, what they don't tell is how significantly the growth rate can fluctuate and how potentially fragile the airline's stability can be. Although Sky Harbor passenger traffic grew by nearly 50 percent during the '90s, there were years within that decade when growth was either flat or negative as shown in Figure 3-26.

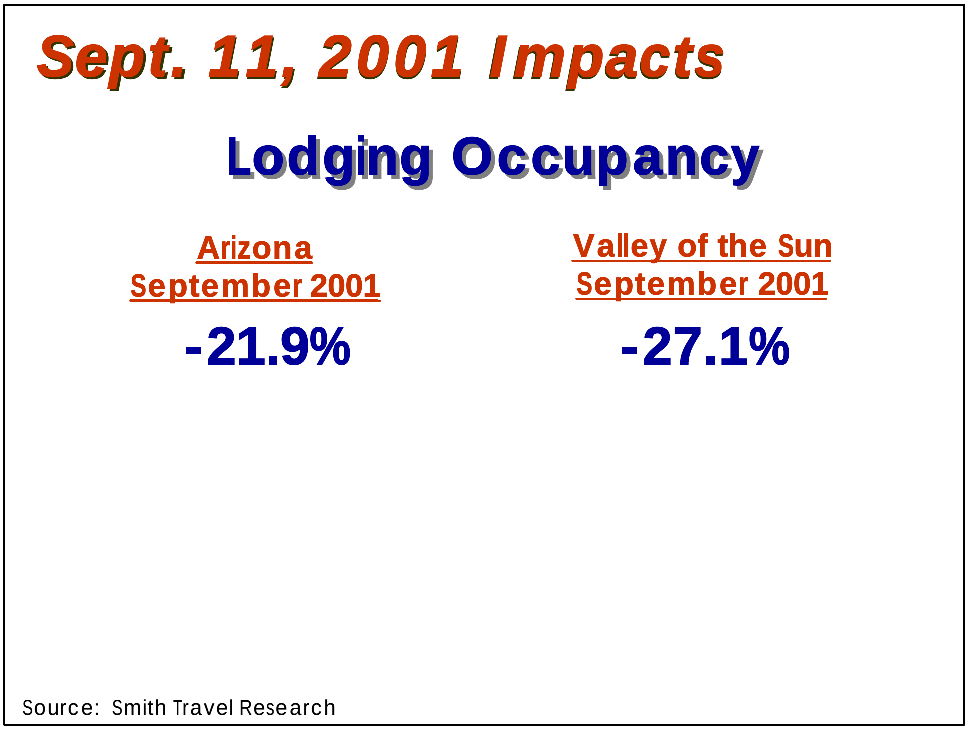
FIGURE 3-26



Source: Phoenix Sky Harbor International Airport

Tragically, September 11 provides a good case study of what could potentially happen if Arizona significantly lost air service. During that month, passenger traffic was down 25.3 percent over September 2000. The impact of that passenger reduction certainly did not stop with airline revenue. Its effect on the largest segment of the travel industry—lodging—was devastating. Millions of dollars in lost revenue and tax collections were the result of statewide occupancies being down by 21.9 percent over the previous year and occupancies in the Valley of the Sun dropping by 27.1 percent.

FIGURE 3-27



Even in smaller communities, air service is a critical issue. As Figure 3-28 conveys, traffic at Yuma International Airport and at the airport serving the Grand Canyon National Park experienced double-digit decreases. What is important to note concerning these smaller airports is that they were already struggling prior to September 11. And, the reality is, when rural airports lose regular air service it more than likely requires a great deal money in the form of subsidies to regain that service.

FIGURE 3-28

Arizona Passenger Traffic

Airport	2001 Passenger Traffic Change (%)
Phoenix Sky Harbor	.7*
Tucson International	4.1*
Yuma International	-11.5**
Grand Canyon National Park	-22.3**

•October YTD

** September YTD

Source: Northern Arizona University

Other key considerations regarding rural air service include the fact that the availability of service (or lack thereof) does not just impact the tourism industry. Other forms of economic and community development rely heavily on those communities' ability to be accessed by air. And, active tourist use of these area's airports tends to support the continuation of service that is vital to all of economic development.

After September 11, America West proactively worked to increase traffic into Arizona's smaller airports by taking advantage of Phoenix's role as a hub. To drive demand for America West Express service into Flagstaff, Prescott, Sierra Vista/Ft. Huachuca, Yuma, Lake Havasu City and Kingman, the airline offered inbound passengers a side trip add-on within Arizona for only $50 roundtrip.

Statistics featured in Figure 3-27 illustrate how the downturn in the airline industry negatively impacted the hotel business. Overall impacts from the loss of air service to a community can have much more far-reaching implications. As an example, according to the AFL-CIO, which represents many of the unions at airline caterers, plans by the nation's major carriers to discontinue meal in-flight service by November 2001, was expected to result in the loss of 45,000 catering industry jobs. Figure 3-29 helps paint a picture of just how devastating it could be to the Arizona economy if America West Airlines is not able to survive current or future challenges. While other carriers might eventually fill some of the lost flights and connections to key cities, it is unlikely the service would be filled by a new "hometown" airline that contributes far more (than a provider with out-of-state headquarters) to local economic and workforce prospects.

FIGURE 3-29

America West Impacts

- **Daily Sky Harbor departures and arrivals: 250** (Southwest has 185)
- **Arizona employees: 10,000** (out of 13,000 total)
- **2000 revenue: $2.3 billion**
- **Annual impact on Arizona economy: $5.2 billion**
- **Local direct spending: $1 billion** (on payroll, goods and services)
- **Local jobs created: 59,000**
- **Spending by America West passengers visiting Arizona: $1 billion**

Sources: *Arizona Republic*, December 30, 2001; Arizona State University College of Business

Conclusion

As the number one source for Arizona's highest value in-bound travelers, the airlines must be considered as an invaluable asset to the continued health and prosperity of the state's tourism industry. With this in mind, new Arizona destination strategies must include a major focus on maintaining air service-related competitive advantages.

In Summary

In researching the current state of the Arizona tourism industry, NGI has identified five critical issues that must be addressed by the industry in creating a long-term strategic action plan. These issues are reiterated in Figure 3-30.

FIGURE 3-30

Critical Issues Summary

- **Competition is eroding Arizona's historic advantages**
- **Arizona's product development continues to lag behind other destinations**
- **Use of technology must be expanded to take advantage of travel trends**
- **Continued customer segmentation and target marketing will be needed to create significant opportunities for Arizona tourism**
- **Retention of air service is critical to future tourism stability**

4.0 TIMELINE/NEXT STEPS

As was previously mentioned, NGI's assignment from the Arizona Office of Tourism encompasses a three-phase process. The first phase, the *State of the Industry*, is designed to communicate where the state currently is competitively and where opportunities and threats exist. The initial conclusions of this report were communicated with the industry during a series of "road shows" in early December. Following the written presentation of this *State of the Industry* to the Arizona Office of Tourism, the actual development of the recommended long-term strategy begins. The final phase will be the presentation and implementation of an action plan, along with clear tactics for measuring the results of the plan.

FIGURE 4-1

Three Phase Process

1. **State of the Industry**
2. **Development of Long-Term Strategy**
3. **Action Plan and Measurements**

Finally, to ensure success in creating sustainable, long-term competitive advantage for the state of Arizona's tourism industry, the industry's role in the state must be better communicated to all constituents, the resources that will enable the state to effectively compete must be increased and industry partners must work in a collaborative manner.

5.0 RESOURCES

AFL-CIO
American Demographics Magazine
Arizona Office of Tourism
Arizona Republic, December 30, 2001
Arizona State University College of Business
Behavior Research Center, Metropolitan Arizona Visitor Study, Spring 2000
D.K. Shifflet and Associates, Inc.
Del Webb Corporation
Elliott D. Pollack & Company
Golf Digest Magazine
Golf Magazine
National Park Service (NPS) 2001
New York Times, July 26, 2000
NGI based on D.K. Shifflet
Northern Arizona University
Phoenix Sky Harbor International Airport
PricewaterhouseCoopers
Richard Carret - Visit USA-Canada
RUF Solutions
Seth Godin, Permission Marketing
Smith Travel Research
TIA Marketing Outlook Forum, October 4, 2001
Travel Industry Association (TIA)
U.S. Census Bureau
www.gocalif.ca.gov
www.visitid.org/cool/index.html